

**BILL #** HB 2577

**TITLE:** illegal aliens; employment; verification

**SPONSOR:** Pearce

**STATUS:** As Amended by House Federal Mandates and Property Rights

**PREPARED BY:** Jake Corey, Russell Frandsen, and Leah Ruggieri

## **FISCAL ANALYSIS**

### **Description**

As amended, the bill makes several changes to prohibit Arizona employers from hiring illegal aliens. Among the major changes, the bill would provide for sanctions against any employer who knowingly hires an illegal alien. An employer who verifies the immigration status of his employees by the criteria specified in the bill, however, is not subject to any penalty. Violations of the bill are to be enforced by the Attorney General, or if the Attorney General does not take action, the County Attorney. In addition, the bill creates an Immigration Enforcement Citizens Aide Position to provide employers with information to comply with immigration laws and appropriates \$100,000 to Legislative Council in FY 2007 for this purpose. The bill would also require employers to add as income on their state tax return any salary paid to an illegal alien and deducted as a business expense on the federal tax return.

### **Estimated Impact**

The bill's fiscal impact on state government cannot be determined with certainty. The bill's most direct impact is the cost to implement the new verification procedures. There is no currently available estimate of that cost. The bill also includes a \$100,000 General Fund appropriation for an investigative position within Legislative Council.

The bill could have broader consequences on both state revenues and expenditures. To the extent that increased verification procedures reduce employment opportunities, the level of illegal immigration would likely decline. Lower levels of immigration would reduce participation in state-funded programs, which would then affect spending.

Reduced immigration levels would also impact state revenues. The growth in general tax collections would decline with a reduced immigrant population. This reduction may be offset somewhat if wages increase to remaining residents in an attempt to offset the overall decline in the labor supply.

The magnitude of these broader revenue and spending impacts will depend on how much the bill affects the level of immigration, which cannot be determined in advance.

### **Analysis**

#### *State Government Costs*

The bill could generate both costs and savings for state and local governments. The bill would generate costs to the extent that it adds new responsibilities to state and local governments. Specifically, the bill requires the Arizona Department of Administration (ADOA) to verify the immigration status of every state employee through the Basic Pilot Employment Verification Program administered by the U.S. Department of Homeland Security. The Basic Pilot Employment Verification Program has a minimum \$25 monthly usage fee, or an average \$0.27 per verification cost if monthly volume exceeds \$25. Currently, there are about 36,000 state employees. The one-time cost to verify the immigration status of all state employees using this program would be approximately \$10,000, plus any administrative expenses incurred by ADOA and other state agencies to implement verification. On an on-going basis, there would be a small cost to verify new state employees.

The bill would also generate additional responsibilities for state and local governments as it requires each state agency and political subdivision that issues a license, permit, or other permission of law to annually conduct random audits of 5% of all persons issued a license to determine if the person is employing any illegal aliens. The audit is to be conducted using the Basic Pilot Employment Verification Program. There is currently no estimate of how much additional workload this new requirement would create for state and local governments, but the increase for Basic Pilot Program costs is expected to be minimal. For example, there are currently about 50,000 licensed contractors in the state. The Registrar of Contractors, therefore, would be required to annually audit 2,500 contractors, with a resulting Basic Pilot Program cost of about \$700.

The Attorney General would be required to enforce the sections of the bill that prohibit employers from employing illegal aliens, which could increase existing caseloads and the need for attorneys, investigators, and support staff. The Attorney General has not provided an estimate of how the bill would impact its caseload.

The bill also establishes an Immigration Enforcement Citizens Aide Position. The purpose of the position is to provide employers with information to assist them in complying with immigration laws. The bill appropriates \$100,000 to Legislative Council in FY 2007 for the aide.

#### *State Government Savings*

The bill could generate state and local government savings to the extent it reduces costs associated with the unauthorized population. Federal law mandates that individuals who are not lawfully present in the United States are eligible to receive some benefits such as emergency medical care and elementary and high school public education. Some state share of the cost for these benefits may be reduced if the bill results in a reduction in this population or serves to discourage future unauthorized immigration.

Two recent studies have examined the cost of services provided to immigrants in Arizona. Based in part on a 1994 study by the Urban Institute, a 2004 report by the Federation for American Immigration Reform (FAIR) estimated that those individuals not lawfully present in the United States and their US born children annually receive approximately \$1.3 billion in certain public funding and private hospital care. This cost estimate consists primarily of the federally mandated benefits of elementary and secondary education and uncompensated public and private health care. The FAIR study estimated the cost impact of elementary and secondary education at \$480 million for unauthorized immigrants' US born children and \$330 million for non-US born children. The report estimated the cost for uncompensated public and private health care at \$400 million. The FAIR report also included \$80 million in spending on incarcerated individuals.

A second report, by the Thunderbird American Graduate School of International Management in 2003, was not limited to the unauthorized population only. The report estimated that immigrants from Mexico to Arizona annually receive approximately \$250 million in public benefits. These numbers, however, are extrapolations of data from national studies, which may include the cost of federal programs. In addition, these national studies appear to estimate the net cost impact after adjusting for any taxes paid. It is unclear whether the Thunderbird estimates have adjusted the federal numbers to produce a gross pretax spending impact. The JLBC Staff has not attempted to reconcile the FAIR and Thunderbird estimates.

#### *State Government Revenues*

The bill may also affect state and local government revenue collections as unauthorized immigrants contribute to the state's economy and labor market. The estimate of tax collections received from this population varies. The FAIR report estimated that these individuals generated about \$257 million annually (about \$268 million in 2006 dollars) in state and local sales, income and property tax revenues. The Thunderbird report estimated that Mexican immigrants paid approximately \$293 million in sales taxes (about \$321 million in 2006 dollars). The Thunderbird study did not estimate the amount of state income or property taxes paid by unauthorized individuals. The direct state revenue impact will depend on how the bill affects the state's overall level of immigration.

In addition to affecting tax collections, the level of immigration affects the labor market. Based on the Census Bureau's March 2002 Current Population Survey, the Urban Institute estimated that about 5% of all U.S. workers are not lawfully present. Arizona's labor force included approximately 300,000 of these workers, or about 11.5% of total employment in the state. According to the Thunderbird study, these individuals earned \$11,170 per year in 2000, (\$12,680 in 2006 dollars), about 39% of the average for all workers. The annual wages earned by this group are estimated to be about \$3.8 billion. This population tends to fill lower paying jobs. A decrease in this population may increase job opportunities for the remaining population or result in an increase in wages for these jobs if the overall labor supply declines. These secondary labor market impacts could also affect state revenue collections.

#### **Local Government Impact**

The bill could increase costs for the County Attorney's Office in each of the counties to investigate and enforce employer compliance with the provisions of the bill. The bill would also increase costs for local government agencies that issue a license, permit, or other permission of law as those agencies would be required to annually audit 5% of licensees.

Because the bill could impact local agencies that administer benefits, any potential costs and savings identified above also apply to local governments. Similarly, any of the economic costs and benefits described above would have effects both at the state and local levels.